

Brazilian Government acts to increase foreign participation with new infrastructure concessions

The Brazilian acting government intends to act firmly to increase competition in the coming infrastructure auctions. At least three initiatives are set to enhance competition in future concessions: **extended deadlines and road shows to attract foreign investors**, flexible rules to facilitate the participation of medium-sized groups and direct involvement on the design of announcements by the Administrative Council for Economic Defense (Cade).

During an interview to the Brazilian newspaper Valor, the executive secretary of the Investment Partnership Program (PPI), Moreira Franco, noted that the winning proposals for the auctions conducted during the President Rousseff government were excessively concentrated in a few groups. "This creates distrust," says Mr. Franco, former Civil Aviation Minister and one of the closest advisors of interim President Michel Temer.

One of the decisions that is already implemented is to give more time between the publication of notices and the decision-making actions. For instance, the time range can reach a year in oil and gas auctions. For roads and highways auctions it will be 90 days – previously it was up to a month. "The time interval will not be as tight as they were in the past," said Mr. Franco. As an attempt to seek foreign capital, the PPI secretary highlights a basic flaw in past auctions: the rules were only published in Portuguese. **From now on there will be an English version for all of the publications.**

As a gesture that reviews differences with the previous government, Mr. Franco said that Cade will be formally inquired to express its opinion about preventive measures for the risk of cartel formation. It is not a legal procedure required by law, but the idea is to ensure a competitive environment during the public auctions. "We analyzed the actors from different areas [of concessions made by Mrs. Rousseff] and we identified that they are few."

In order to facilitate the entry of smaller companies in these auctions some actions are underway. The first one aims to reduce the initial capital at the beginning of the contracts, duplicating whole highways within five years. This requirement - one of the Dilma's model foundation stones - was eliminated and the actions will be taken as the demand increases. Another easing will occur in the airport concessions payments increasing the grace period for five-year on grant - the required investments are currently concentrated within the initial phase of the contracts.

Thus, the acting Brazilian government believes that the projects can be more easily funded and this encourages not only giant contractor's consortia assembly. An emblematic case is the MGO consortia, responsible for managing the highway named BR-050, between the State of Minas Gerais and the State of Goiás. Formed by ten construction companies experienced in providing services to the government, this consortia has the best performance measures of the last contracts batch.

Mr. Franco tries to manage expectations about the concessions' next steps. According to the secretary, the intention is to avoid the same mistakes attributed to Dilma's government Logistics Investments Program (PIL): the model's successive patches that arouse uncertainty among potential investors. "We are listening, talking and avoiding official statements. When publicly stated, it becomes the truth and

generates an atmosphere that characterized the concession programs in the last government: changing rules and massive insecurity. "

The first PPI board meeting chaired by Interim President Temer is scheduled to August 5. If everything goes as planned, the meeting will have a project portfolio definition to be offered to the private sector. The official announcement might occur in mid-August before the Senate votes Dilma's impeachment process. If staying in office, Temer makes plans to offer the concessions' projects to China. He intends to attend the G-20 Summit in China on early September and take to this trip the infrastructure projects and sell them to foreigners.

The government wants the new rules outlines to address all infrastructure modals making sure that each project particularity has been handled directly in the notices. The modeling tendency is to be regulated by an interim measure whose text is in the final phase by the PPI team.

Despite the desire to reach all sectors, the government has in mind a hierarchical order to the next auctions to be announced. The list is headed by Salvador, Fortaleza, Porto Alegre and Florianópolis airports, followed by the highways, electricity projects, oil and natural gas fields and port terminals. Procedures for railways biddings and sanitation projects lag behind.